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SUBJECT: U.S.-CHINA DIALOGUE ON FOREIGN ASSISTANCE: YOUR
MEETING WITH VICE MINISTER YI

SUMMARY

1. (SBU) Your meeting with Ministry of Commerce Vice Minister (VM) Yi Xiaozhun in Tokyo will be an excellent opportunity to discuss the launch of the U.S.-China Dialogue on Foreign Assistance, which was proposed by Deputy Secretary Negroponte during his January meeting with Premier Wen Jiabao. We view VM Yi's willingness to meet with you as a positive step in our efforts to engage China and better understand its development goals and strategies. The Ministry of Commerce (MOFCOM) is China's lead agency on development issues within an aid bureaucracy that is loosely tied together. China's aid remains primarily targeted towards building commercial ties overseas, extraction of natural resources, and encouraging developing countries to shift their diplomatic recognition from Taiwan to Beijing. It is difficult to estimate the total amount of China's assistance overseas, as aid is packaged in different ways, including soft loans, political risk insurance, and membership in multilateral development banks. The World Bank and many bilateral donors, most notably the UK Department for International Development (DFID), are encouraging China to improve development coordination and meet internationally accepted standards for development assistance. China's most high profile id projects have been in Africa, and China has had to fend off allegations that its aid program props up dictators in Sudan and Zimbabwe. As China's international standing rises in the months leading up to the 2008 Beijing Olympics, your meeting with VM Yi presents a unique opportunity to lay the groundwork for our bilateral Dialogue on Foreign Assistance.
END SUMMARY.

2. (SBU) Comment: Post would like to take this opportunity to note that there has been a wealth of outstanding reporting from our Embassies in Africa, Latin America, and Asia on China's aid program in those countries. These high-quality cables -- too numerous to reference all of them here -- have been a tremendous help to Embassy Beijing's efforts to better understand China's aid program. End Comment.

China's Aid Bureaucracy

¶3. (SBU) Unlike the United States, China does not have a centralized aid agency. China is proud of a long history of delivering aid to its neighbors dating back to the Mao Zedong era. Development assistance in the modern sense, however, is a relatively new phenomenon in China, reflected by a bureaucracy that is not designed around providing aid to other countries. The Ministry of Commerce (MOFCOM) Department of Aid to Foreign Countries is the lead agency for foreign assistance, and it funds companies (many of them state-owned) to deliver aid in developing countries, primarily to build commercial ties. MOFCOM certainly is not the only aid-related agency. The Ministry of Foreign Affairs (MFA) plays an important aid coordination role, and the Ministry of Finance (MOF) controls funding. In addition, other ministries such as Health, Education, and Civil Affairs have their own aid programs related to their function (ex. the Ministry of Health is responsible for health projects in other countries). China's humanitarian assistance programs also have gained in stature in recent years, most notably providing assistance to South Asia after the 2004 tsunami and recent assistance to Africa.

¶4. (SBU) Liu Junfeng, a Director in MOFCOM's Department of Aid to Foreign Countries, told Econoff that MOFCOM would be the lead agency on the proposed Development Assistance Dialogue. According to Liu, the MFA agrees with this approach and has asked MOFCOM to take the lead on the Dialogue. VM Yi's portfolio includes development assistance and the Department of Aid to Foreign Countries falls under his area of responsibilities. (Note: VM Wei Jianguo, who previously held these responsibilities, has retired.) The head of the Department of Aid to Foreign Countries is

BEIJING 00001225 002 OF 004

Director General Wang Shichun.

Commercial Ties, Resources, and Taiwan

¶5. (SBU) Chinese officials in Beijing state that China's priorities for its aid program are to build commercial ties and engender good relations with its neighbors. Numerous media reports and other anecdotal information from developing countries indicate that China also aims to: (1) secure resources, especially energy resources, (2) encourage developing countries to shift their official diplomatic recognition from Taiwan to Beijing, and (3) extend China's "soft power" influence, particularly in Southeast Asia. It is difficult, however, to estimate the exact amount of China's assistance overseas, as China does not publish statistics on its aid program. Many multilateral and bilateral donors have encouraged China to publish a White Paper on its aid program. They also have urged China to impose greater lending discipline so as not to undermine assistance from Western donors and international financial institutions by providing capital to poor countries with "no strings attached."

What is Aid? Loans, Financing, and MDBs

¶6. (SBU) Further complicating efforts to encourage China to go public with its aid statistics is that the definition of "aid" in China is not necessarily the same as in western countries. While other donor countries are shifting from loans to grants, China often prefers to provide soft loans. China finances many projects through the vehicles of the China Development Bank (CDB) or the China Exim Bank. SINOSURE, China's Export Credit Insurance Company, offers political risk insurance to companies, even in high-risk places such as Burma and Sudan. China has begun joining multilateral development banks (MDBs) as a non-regional member, and already has joined the African Development Bank (AfDB) and has asked for U.S. support for its bid to join the

Inter-American Development Bank (IDB). It is one of the only countries in the world to both receive aid from and provide aid to MDBs. The terms of financing for China's aid projects often are unclear. State-owned enterprises (SOEs) often are subsidized by MOFCOM to deliver aid, and MOFCOM divides its donor activities into four categories: technical assistance, grants, interest-free loans, and preferential loans. China's projects in the developing world, therefore, range in scope from large agricultural projects to infrastructure development to building national stadiums to dispatching health teams. In short, it is difficult to estimate the amount of China's aid because it is unclear how to categorize China's aid.

International Coordination Efforts and the OECD

17. (SBU) As a result, much of the international community's focus is on encouraging China to abide by OECD Development Assistance Committee (DAC) lending standards, and Richard Manning was the first OECD DAC Chair to visit China in February 2007. At that time, Manning said China is a top priority for engaging on aid coordination because it has the largest and most developed assistance program of any of the Middle Income Countries. The World Bank continues to consult with China on its transition from aid recipient to donor. Arguably, the most successful bilateral development coordination effort has been the UK Department for International Development's China-Africa Dialogue. DFID officials hope that they will be able to continue to engage with China on bilateral development cooperation in Africa even after DFID's aid program in China expires in 2011.

USG Outreach on Aid Coordination

BEIJING 00001225 003 OF 004

18. (SBU) The U.S.-China Dialogue on Foreign Assistance will build on previous outreach by U.S. officials on aid coordination:

--State S/P Director David Gordon met with MOFCOM Deputy Director General for American and Oceanian Affairs Wang Hongbo in January 2008 on the margins of the Senior Dialogue to deliver our proposal for the Dialogue.

--Charles Aanenson, Counselor for Development Cooperation at Embassy Tokyo, met with Liu Junfeng in MOFCOM's Department of Aid to Foreign Countries in August 2007. Liu said that China and the United States should further explore possible cooperation in Africa and begin to identify specific cooperative projects in recipient countries.

--Kenneth Peel, Deputy Assistant Secretary of Treasury for International Development Finance and Debt, had a successful visit to Beijing, highlighted by a meeting with MOFCOM Department of Aid to Foreign Countries Director General Wang Shichun, in May 2007. (Note: DAS Peel is scheduled to return to Beijing in late April for more discussions on development finance.)

--USAID Director for Donor Coordination Norman Nicholson presented U.S. views on aid programs and international development coordination at the U.S.-China Global Issues Forum and met separately with officials at MOFCOM and MFA in August 2006.

--Steve Tvardek, Director of the Office of Trade Finance at the Treasury Department, and Piper Starr from EXIM Bank met with counterparts at MOFCOM, China EXIM, and SINOSURE in Beijing in December 2005.

China's Engagement with Africa: The Sound . . .

¶9. (SBU) The Forum on China-Africa Cooperation (FOCAC) highlights China's engagement with Africa, and sheds light on the overlap between politics and aid. During the third FOCAC summit, held November 3-5, 2006 in Beijing, China announced an eight-point plan for "new strategic partnership" with Africa, to include a total of USD 3 billion in preferential and interest-free loans to Africa. Chinese companies and African Governments signed a total of 14 agreements worth USD 1.9 billion for infrastructure, energy and resource development, technical and communication equipment and financial and insurance assistance, and agreed to an "action plan" for political and economic dialogue and cooperation, joint medical and educational projects and future trade and development cooperation. As a means of further building its international reputation, the PRC invited massive numbers of journalists to attend the FOCAC summit, even going so far as to fund travel for some African journalists. Despite being invited to attend as observers, none of the five African nations which diplomatically recognized Taiwan at the time of the Summit attended.

. . . And The Fury: The Sudan Example

¶10. (SBU) Critics claim that China's "no questions asked" aid policies are actually an overt policy of "aid for oil." Previous aid contributions to Sudan, China's fourth largest supplier of oil, included an interest-free loan to Sudan for President Bashir to build a new presidential palace; the close economic ties between the two nations have led many to accuse China of enabling the Sudanese Government's military efforts in Darfur. The subsequent international fallout (including Mia Farrow and the Save Darfur Coalition's efforts to brand the 2008 Olympic Games the "Genocide" Olympics) spurred China to send Special Envoy for Darfur Liu Guijin to Sudan in late February 2008, to highlight past aid to Darfur totaling RMB 80 million (approximately USD 11 million), and to announce new aid projects, including education and water

BEIJING 00001225 004 OF 004

development.

Comment: A Unique Opportunity

¶11. (SBU) Your meeting with VM Yi will be the first opportunity we have had to discuss development assistance with the Chinese Government at the Vice Minister-level. As noted in para 8, our engagement on foreign aid over the past three years has been limited, and this meeting is an opportunity for us to overcome China's long-standing skepticism of our motives and to establish a collaborative dialogue. As we encourage greater transparency in China's assistance and urge China to abide by international lending norms, we also must view China as an equal partner in our efforts to promote development. As China's international standing rises in the months leading up to the 2008 Beijing Olympics, therefore, your meeting with VM Yi presents a unique opportunity not only to discuss China's donor coordination efforts but also to lay the groundwork for our bilateral Dialogue on Foreign Assistance.

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